

Insight



A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

SEE HELPFUL RESOURCES FROM A NEW PERSPECTIVE

As part of the renewed relationship with T. Rowe Price, you can expect more from the **myRetirementPlan** Web site than ever before. As your one-stop resource for Plan information, tools, services, and retirement planning needs, the site provides everything you need to manage your deferred compensation retirement account more conveniently. Anytime, day or night, you can log in to **rps.troweprice.com** to:

- Check account balances
- Make transactions
- Read about Plan features and investments
- Request a prospectus
- Download forms
- Use free guidance tools
- Sign up for free services
- Review distribution options

Online tools can help you plan and shape your retirement

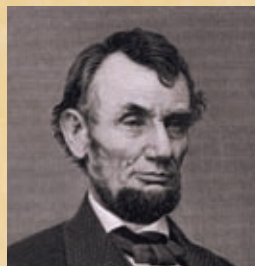
In as little as 15 minutes, Morningstar® Retirement ManagerSM can help you create a retirement strategy which includes getting help with common questions such as:

- How much to save for retirement
- How to allocate your money among your Plan's investment options

(Continued on page 2)

BUILDING ON THE PAST TO MAKE THE FUTURE BRIGHTER

The State of Illinois recognizes the importance of providing all employees with the best resources to plan for a well-deserved retirement. That's one reason why we have decided to renew our long-standing relationship with T. Rowe Price, one of the nation's most respected leaders in retirement plan services and investment management. For the past 25 years, T. Rowe Price has been the plan service provider for the State of Illinois Deferred Compensation Plan—a valuable benefit that works with your pension plan to help you accumulate additional income for your future. We offer you two ways to invest because we understand that the majority of your income in retirement will come from your savings. Participating in both plans is a great way to reach your retirement goals.



A new campaign that is a fitting tribute to our forefather

As part of our renewed relationship with T. Rowe Price, we are taking steps to evolve the look and feel of all communications relating to the Deferred Compensation Plan. The inspiration for the new concept came from our 16th President and Illinois resident, Abraham Lincoln.

Lincoln was a true visionary who believed that what you do today affects your tomorrow. In essence, your daily actions, or inactions, can have a direct impact on your future. By applying this wisdom to the task of retirement planning, our goal is to give you the guidance and tools to help you be more financially prepared for retirement.

In the coming months, we will be rolling out additional communications that will highlight Plan features, and make it easier than ever for you to take advantage of the Deferred Compensation Plan.

Help is always available

For more information about the State of Illinois Deferred Compensation Plan, visit the T. Rowe Price **myRetirementPlan** Web site at **rps.troweprice.com**, or call the Plan Account Line at **1-888-457-5770**. You may also call the Deferred Compensation Office at either **1-800-442-1300** or **1-800-526-0844** (TDD/TTY).

(Continued from page 1)

Other Morningstar* tools are also available to help you track the performance of your portfolio and its underlying investments on an ongoing basis:

- **Morningstar® Portfolio X-RaySM**— provides an in-depth look at the individual holdings in your account
- **Morningstar® Portfolio TrackerSM**— provides a detailed breakdown of your investments' daily performance
- **Morningstar® Portfolio WatchlistSM**—provides dollar target highs, lows, and volumes for investments not included in your retirement savings strategy

myRetirementPlan also offers a selection of powerful financial calculators you can use to make informed decisions about your financial future. The most popular calculators are:

- **Retirement Income Estimator**

Get an estimate of how much income you can expect each month in retirement—based on your current balance, savings rate, age, and Social Security benefits.

- **Contribution Increase Calculator**

See the impact on your paycheck with a 1% or 2% contribution increase.

- **Social Security Calculator**

Get an idea of the funds that will be available to you when you retire.

Log in today at rps.troweprice.com and experience the difference

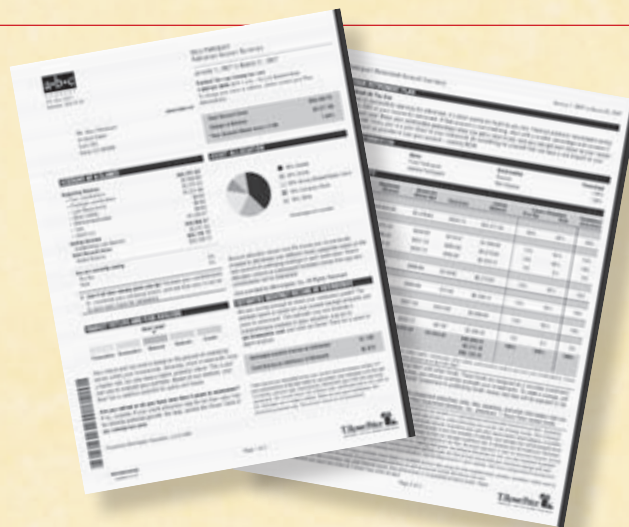
First-time visitor?

- Click **Register**. Then follow the prompts to create a user name and password that you will use for future access to your account.
- On subsequent visits, click **Login**. Then enter your user name and password.

Note: If you don't have the information requested, all you need is your Social Security number, ZIP code, and date of birth.

*The Morningstar name and trademarks are used under license from Morningstar Associates, LLC. Investment advisory products and services are provided solely by Morningstar Associates, LLC, a registered investment advisor and a wholly owned subsidiary of Morningstar, Inc. Morningstar Associates, LLC, is not affiliated with, nor is it an employee or agent of, T. Rowe Price. Plan sponsors must elect to make the Morningstar services available.

COMING SOON: SHORTER ACCOUNT STATEMENTS



Because we're always looking for ways to help you save time and manage your savings, your quarterly deferred compensation account statement will soon be consolidated into a concise, one-page summary format. The new statement will provide a quick snapshot of your account and personalized information that can help you reach your goals.

The front of the summary statement features key account information, including:

- Balances
- Account value
- Asset allocation
- A summary of recent activity

The back contains more detailed information, including:

- Plan messages
- Investment activity

You can also customize your statement with additional details by calling T. Rowe Price at **1-888-457-5770** or visiting the **myRetirementPlan** Web site at **rps.troweprice.com**.

If you prefer the longer format, you will still be able to view and print full statements (past and future) using the online statement service. Click on the Services tab to learn more.

PUT SOME OLD-FASHIONED FINANCIAL WISDOM TO WORK FOR YOU

You may have heard this before, but it's worth repeating: Proper asset allocation is one of the most important decisions you can make as an investor. But what exactly is asset allocation? And why is it so important?

A quick definition

Simply stated, asset allocation is how you divide your portfolio between different types of investments—usually stocks, bonds, and short-term investments. The length of time you plan to invest those savings—commonly referred to as your time horizon—should determine how much money you put into each type of investment.

Benefits of a properly allocated portfolio

Why is asset allocation important? Because choosing the appropriate allocation of stocks, bonds, and short-term investments in your portfolio goes a long way toward balancing market risk (the risk your assets will lose value due to market fluctuations) and inflation risk (the risk that, over time, your purchasing power won't keep up with inflation). Managing these risks may allow you to achieve higher possible returns based on your investment time horizon. For example, if you're investing for a long-term goal like retirement, you should consider investing more aggressively (putting more into stocks) than if you're investing for college (most likely a shorter time horizon and, thus, a less aggressive allocation).

Two ways to allocate your investments

When you participate in the State of Illinois Deferred Compensation Plan, you decide how to allocate your investments using one of two approaches:

- **Do-it-yourself:** Choose among your Plan's core investment options to create your own diversified portfolio. This approach may be appropriate for you if you prefer to have more control over choosing and monitoring your investment strategy.
- **Pre-assembled:** Select a premixed and professionally managed fund for a date-based diversified portfolio. This approach may be appropriate for you if you don't have the time, interest, or experience to create and manage a diversified investment portfolio.

For more information about the do-it-yourself and pre-assembled investment options offered through your Plan, log in to the T. Rowe Price **myRetirementPlan** Web site at **rps.troweprice.com** and select the Investment tab. While you're there, check out the Use a Tool sidebar for links to interactive tools that can help you create and manage a personal allocation strategy.

Call 1-888-457-5770 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

MORE ABOUT MARKET RISK AND INFLATION RISK

Your goal as an investor is to maximize your return potential while minimizing both your market and inflation risk.

Among the three main investment types:

- Stocks offer high return potential, high market risk, and low inflation risk
- Bonds offer lower return potential, lower market risk, and higher inflation risk
- Short-term investments offer lower return potential, low market risk, and high inflation risk

Automatic rebalancing helps keep your allocation consistent

If you decide to create your own portfolio, remember that market fluctuations may alter your allocation over time. That's why rebalancing your account regularly is a good investment practice. If you are unsure how to go about it, you can take advantage of the free T. Rowe Price Automatic Rebalancing service offered by the Plan. When you sign up for auto-rebalancing, your account is rebalanced for you quarterly, semiannually, or annually—restoring your chosen allocation of stocks, bonds, and money market/stable value investments. To sign up for the service, call 1-888-457-5770 or visit the **myRetirementPlan** Web site at **rps.troweprice.com**, select the Services tab, then click on Auto-Rebalancing. You can cancel the service at any time.

WHAT DOES BEING ON THE “WATCH LIST” MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.

WHY ARE FUNDS PLACED ON THE WATCH LIST?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance**—The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk**—Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio Construction/Style Drift**—Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations**—There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely.

There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN Current Watch List Summary

The following funds are on the watch list as of 9/30/2007:

Ariel Fund: The fund's performance has improved recently, however, the fund remains on the watchlist due to style drift. The fund has drifted out of the Small Value space and into the Mid Cap Blend category. The fund continues to lag dramatically for the longer term periods. The fund ranks in the 94th percentile for Mid Cap Blend funds over the three year period that ended August 31, 2007. For those participants who bought this fund for Small Value exposure the Plan has added a new Small Value option, the Northern Small Cap Value Fund. The State Board of Investment has removed Ariel from the state pension plan, but decided to keep Ariel in the deferred compensation plan for those participants who desire to invest in a minority owned, Illinois based firm.

Wells Fargo Advantage Large Company Growth Fund has continued to underperform even as Growth has come back into favor. The fund is seemingly well positioned to take advantage of a market dominated by growth, with a high weighting in technology, and eventually the market will cycle in that direction. We are concerned that the fund has not done better. We will continue to monitor the situation.

Legg Mason Value Trust was hurt this quarter by exposure to home builders and to mortgage companies such as Countrywide. The fund had outperformed the S&P 500 15 straight calendar years, but it is in the 83rd percentile for the one-year period ending August 31, 2007. This fund is highly concentrated and therefore volatile. For those wishing for a more stable large-cap blend option, there is the Vanguard Index fund in the Plan.

T. Rowe Price International Stock has bounced on and off the watch list due to long-term mediocre performance. T. Rowe Price has announced that they will be changing the manager in October, which has us concerned. We will continue to monitor this fund closely.

Stable Value Option has been added to the watch list. I know this sounds surprising, but there have been several personnel changes within INVESCO's fixed income department which automatically places the fund on the watch list. We are not overly concerned, but we will monitor the situation. So far the returns have remained competitive and the insurance contracts that allow for the stability in stable value remain in place.